

Message Text

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TO AMEMBASSY JAKARTA IMMEDIATE

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PLEASE PASS E/C COUNSELLOR AND PETROLEUM ATTACHE

E.O. 11652: N/A

TAGS: ENRG, ID

SUBJECT: BACKGROUND/SIGNIFICANCE OF DOE/ERA DECISION
ON PAC-INDONESIAN PROJECT

REF: DOE PRESS RELEASE DATED 30 DECEMBER, SENT SEPTTEL

1. DOE HAS PROVIDED FOLLOWING BACKGROUND TO DECISION
ISSUED TODAY.

2. THE PACIFIC INDONESIA LNG PROJECT REPRESENTS THE
DEPARTMENT OF ENERGY'S FIRST MAJOR POLICY ACTION ON AN LNG
IMPORT PROJECT. WHILE THE DECISION MAY APPEAR TO THE
INDONESIAN GOVERNMENT TO BE A CHANGE OF SIGNALS, PARTICULAR-
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LY WITH REGARD TO THE PRICE ESCALATOR, IT REPRESENTS A NEW
LOOK BY THE USG AT PREVIOUS GAS DECISIONS IN LIGHT OF:

-- INCREMENTAL FUTURE QUANTITIES OF WESTERN HEMISPHERE
PIPELINE GAS PROBABLY AVAILABLE IN THE NEAR TO MID FUTURE;

-- DEEP USG CONCERN ABOUT F.O.B. PRICE ESCALATORS (SUCH AS

THE PAC-INDO FORMULA) WHICH WOULD HAVE A DELETERIOUS IMPACT ON EXISTING AND PENDING GAS IMPORT VENTURES;

-- SERIOUS CONCERN WITH ANY GAS PRICE LINKAGE TO OPEC OIL PRICES AND FUTURE OPEC PRICE ACTIONS;

-- THE BLS ELEMENT (50 PERCENT) OF THE ESCALATOR WOULD BE ARTIFICIALLY INCREASED BY THE ENACTMENT OF ENERGY TAX PROPOSALS (E.G., THE PROPOSED CRUDE OIL EQUALIZATION TAX) NOW UNDER CONSIDERATION BY THE CONGRESS;

-- CONCERN ABOUT THE IMPACT OF PRICE ESCALATORS ON EFFORTS TO ACHIEVE A DOMESTIC NATURAL GAS PRICE AND STIMULATE SYNTHETIC NATURAL GAS DEVELOPMENT PROJECTS.

3. DOE'S CONCERN WITH THE F.O.B. PRICE ESCALATOR IS NOT ANOTHER DELAYING TACTIC AS THE ESCALATOR IS A SERIOUS PROBLEM IN ITS OWN RIGHT FOR THE ABOVE-MENTIONED REASONS.

4. A GOOD FAITH ATTEMPT BY THE GOI AND THE COMPANIES TO MEET U.S. CONCERNS WITH THE PRICE ESCALATOR AS CURRENTLY FORMULATED MIGHT GO A LONG WAY TOWARD RESOLVING THE REMAINING ISSUES AT THE FEDERAL LEVEL.

5. WITH REGARD TO BROADER QUESTIONS AN LNG IMPORT POLICY WAS ADDRESSED IN THE NATIONAL ENERGY PLAN IN APRIL 1977. LIMITED OFFICIAL USE

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THE PREMISE OF THIS POLICY IS TO REVIEW LNG IMPORT APPLICATIONS ON A CASE-BY-CASE BASIS AND IN ACCORDANCE WITH THE FOLLOWING CRITERIA:

-- RELIABILITY OF THE SUPPLIER COUNTRY;

-- THE DEGREE OF U.S. DEPENDENCE THAT SUCH SALES WOULD CREATE;

-- THE COMMERCIAL ASPECTS OF AN IMPORT PROPOSAL;

-- THE SAFETY CONDITIONS ASSOCIATED WITH LNG RECEIVING FACILITIES.

THE DEPARTMENT OF ENERGY IS DEVELOPING FURTHER THE LNG IMPORT POLICY, AND WILL HOLD HEARINGS ON THIS QUESTION IN WASHINGTON ON JANUARY 4 AND 5, 1978.

6. FOREGOING IS INITIAL DOE COMMENT. WE WILL PROVIDE FURTHER GUIDANCE EARLY NEXT WEEK. CHRISTOPHER

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